

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

Township of Byron
Kent County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended March 31, 2005

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Township of Byron
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Township of Byron's (the Township) financial performance provides a narrative overview of the Township's financial activities for the fiscal year ended March 31, 2005. Please read it in conjunction with the Township's financial statements.

FINANCIAL HIGHLIGHTS

- The Township's total net assets increased by \$4,246,552 (6 percent) as a result of this year's activities. Net assets of the governmental activities increased by \$689,821, and net assets of the business-type activities increased by \$3,556,731.
- Of the \$77,028,622 total net assets reported, \$10,949,511 (14 percent) is unrestricted, or available to be used at the Board's discretion.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$2,192,739, which represents 100 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

The Township's basic financial statements are comprised of three parts: management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township, reporting the Township's operations in more detail than the government-wide financial statements.
 - Governmental fund statements tell how general government services, like public safety, were financed in the short-term, as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business, such as the sewer and water systems.
 - Fiduciary fund statements provide information about the financial relationships in which the Township acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Because this is the first year of this reporting format, a comparative analysis of the basic financial statements was not practicable. Comparative analyses of the basic financial statements will be made in subsequent years.

Government-wide financial statements

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets (the difference between the Township's assets and liabilities) is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, you need to consider additional nonfinancial factors, such as changes in the Township's property tax base and the condition of the Township's capital assets.

The government-wide financial statements are divided into two categories:

- *Governmental activities* - Most of the Township's basic services are included here, such as fire and police protection and general government. State shared revenue and property taxes finance most of these activities.
- *Business-type activities* - The Township charges fees to customers to help it cover the costs of certain services it provides. The Township's sewer and water systems are reported here as well as its construction code inspection services.

Fund financial statements

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The Township Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues.

The Township has three kinds of funds:

- *Governmental funds*. Most of the Township's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out and, (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship between them.

Township of Byron

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

- *Proprietary funds.* Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. In fact, the Township's enterprise funds are the same as its business-type activities but provide more detail and additional information, such as cash flows.
- *Fiduciary funds.* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The Township's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

Net assets. Total net assets at the end of the fiscal year were \$77,028,622, an increase of 6 percent compared to the prior year. Of this total, \$63,330,180 is invested in capital assets, net of related debt, and \$2,748,931 is restricted for various purposes. Consequently, unrestricted net assets were \$10,949,511, or 14 percent of the total.

	<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>
Current assets	\$ 6,568,086	\$ 7,219,222	\$ 13,787,308
Noncurrent assets	8,260,892	56,575,472	64,836,364
Total assets	14,828,978	63,794,694	78,623,672
Current liabilities	266,212	413,626	679,838
Noncurrent liabilities	-	915,212	915,212
Total liabilities	266,212	1,328,838	1,595,050
Net assets:			
Invested in capital assets, net of related debt	8,260,892	55,069,288	63,330,180
Restricted	2,129,161	619,770	2,748,931
Unrestricted	4,172,713	6,776,798	10,949,511
Total net assets	\$ 14,562,766	\$ 62,465,856	\$ 77,028,622

Changes in net assets. The Township's total revenues were \$11,258,670. During the current year, 42 percent of the revenues were derived from capital contributions consisting primarily of utility system improvements. Nearly 29 percent come from charges for services, primarily from sewer and water services. Over 13 percent of the total revenues come from property taxes while only 11 percent come from state shared revenue.

Township of Byron
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The total cost of all the Township's programs, covering a wide range of services, totaled \$X. Almost X percent of the Township's costs relate to the provision of utility services. Public safety and general government each account for X percent of the Township's total costs.

	<i>Governmental activities</i>	<i>Percent</i>	<i>Business-type activities</i>	<i>Percent</i>	<i>Totals</i>	<i>Percent</i>
Revenues:						
Program revenues:						
Charges for services	\$ 331,463	9%	\$ 2,941,944	38%	\$ 3,273,407	29%
State grants	165,970	5%	-	0%	165,970	1%
Capital contributions	171,359	5%	4,574,079	60%	4,745,438	42%
General revenues:						
Property taxes	1,436,147	40%	-	0%	1,436,147	13%
State shared revenue	1,240,429	35%	-	0%	1,240,429	11%
Cable franchise fees	122,638	3%	-	0%	122,638	1%
Other	121,374	3%	153,267	2%	274,641	2%
Total revenues	3,589,380	100%	7,669,290	100%	11,258,670	99%
Expenses:						
General government	1,168,264	40%	-	0%	1,168,264	17%
Public safety	985,508	34%	-	0%	985,508	14%
Culture and recreation	409,145	14%	-	0%	409,145	6%
Public works	251,648	9%	-	0%	251,648	4%
Community development	66,370	2%	-	0%	66,370	1%
Sewer	-	0%	2,113,351	51%	2,113,351	30%
Water	-	0%	1,746,250	43%	1,746,250	26%
Inspections	-	0%	252,958	6%	252,958	4%
Other	18,624	1%	-	0%	18,624	0%
Total expenses	2,899,559	100%	4,112,559	100%	7,012,118	102%
Increase in net assets	\$ 689,821		\$ 3,556,731		\$ 4,246,552	

Governmental activities

Governmental activities increased the Township's net assets by \$689,821. The key factor for this increase relates to anticipated decreases in state shared revenue and adjustments to spending.

The cost of all governmental activities this year was \$2,899,559. After subtracting the direct charges to those who directly benefited from the programs \$(331,463), and operating and capital grants \$(337,329), the "public benefit" portion covered by property taxes, state revenue sharing, and other general revenues was \$2,230,767.

Business-type activities

Business-type activities increased the Township's net assets by \$3,556,731. The increase was primarily the result of developer capital contributions in the amount of \$3,380,000.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Governmental funds

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$6,301,874, an increase of \$416,186 in comparison with the prior year. The increase occurred because of anticipated decreases in state shared revenue and adjustments to spending. Of the total fund balances, 96 percent constitutes unreserved fund balance, which is available for spending at the Board's discretion. The remainder of fund balance, in the amount of \$258,212, is reserved to indicate that it is not available for new spending because it is legally restricted for street lighting expenditures.

The General Fund is the chief operating fund of the Township. At the end of the fiscal year, unreserved fund balance was \$2,192,739, which represents 100 percent of the actual total General Fund expenditures for the current fiscal year. Total fund balance decreased by \$537,626 during the fiscal year primarily due to transfer of \$697,779 to the Township Improvement Revolving Fund.

The Township Improvement Revolving Fund has of fund balance of \$1,482,111 which represents an increase of \$710,235 in comparison with the prior year. The increase was created through a transfer of unrestricted funds, in the amount of \$697,779, from the General Fund.

Proprietary funds

The Sewer Fund experienced an operating loss of \$792,386, but an increase in net assets in the amount of \$1,702,018. Net assets were \$37,229,635 at year end.

The Water Fund experienced an operating loss of \$179,278, but an increase in net assets of \$1,759,154. Net assets were \$23,031,035 at year end.

The Building Inspections Fund generated operating income of \$95,559. Net assets were \$446,032 at year end.

General fund budgetary highlights

It was unnecessary for the Board to amend the budgeted expenditures of the General Fund during the year as total actual expenditures were \$302,584 less than the amount originally budgeted. With potential loss of some State Shared Revenue, the Township was careful to not spend the entire budget.

Capital assets and debt administration

Capital assets

The Township's investment in capital assets for its governmental and business-type activities as of March 31, 2005, amounts to \$64,130,180 (net of accumulated depreciation). This investment includes a broad range of assets, including buildings, fire equipment, and sewer and water facilities. The increase in the Township's net investment in capital assets for the current fiscal year was \$1,317,932.

Major capital asset events during the current fiscal year included the following:

- Continued expansion of the sewer and water systems totaling \$4,426,914
- Acquired 15 acres of land at a cost of \$302,221 for the expansion of Whistlestop Park
- Park improvements at Whistlestop Park totaling \$100,195
- Purchases of fire equipment totaling \$175,334 of which \$107,247 was financed by a federal grant

More detailed information about the Township's capital assets is presented in Note 5 of the notes to the basic financial statements.

Long-term debt

At the end of the fiscal year, the Township had total noncurrent obligations outstanding in the amount of \$1,019,829 which represents a decrease of \$155,220. The Sewer Fund is solely responsible for repayment of these obligations.

During the year ended March 31, 2005, the Township decreased its long-term debt through principal payments on its 1992 sewer tax increment bonds that are financed by taxes captured through the Local Development Finance Authority. The retirements in 2005 amounted to \$125,000. The Sewer Fund also retired \$30,220 of its obligations related to contracts payable.

More detailed information about the Township's noncurrent liabilities is presented in Note 6 of the notes to the basic financial statements.

Economic condition and outlook

I am pleased that Byron Township has been able to maintain a healthy fund balance in an era of changing revenues and revenue projections. Byron Township has saved over the years for projects such as the Township Hall, Byron Township Fire Station, Whistle Stop Park and the Library without having to borrow or bond for the projects. We have continued that fiscal stewardship to keep expenditures near previous years in order to plan for future projects and enhancements. We also know that as the Township continues to grow, we will need to provide more services to our increased citizenry.

Contacting the Township's financial management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Joel Hondorp, Township Clerk
Township of Byron
8085 Byron Center Avenue, SE
Byron Center, MI 49315

Phone: (616) 878-9104

INDEPENDENT AUDITORS' REPORT

**Board of Trustees
Township of Byron, Michigan**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Township of Byron, Michigan, as of March 31, 2005, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Township of Byron, Michigan, as of March 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 13, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of April 1, 2004.

The management's discussion and analysis and budgetary comparison information on pages i through vii and 25 through 26, are not required parts of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Byron, Michigan's basic financial statements. The accompanying supplementary information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sigfried Crandall P.C.

August 25, 2005

BASIC FINANCIAL STATEMENTS

Township of Byron
STATEMENT OF NET ASSETS
 March 31, 2005

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 2,656,093	\$ 2,322,482	\$ 4,978,575
Investments	3,582,329	4,293,878	7,876,207
Receivables, net	<u>329,664</u>	<u>602,862</u>	<u>932,526</u>
Total current assets	<u>6,568,086</u>	<u>7,219,222</u>	<u>13,787,308</u>
Noncurrent assets:			
Receivables, net	-	706,184	706,184
Capital assets, net of accumulated depreciation	<u>8,260,892</u>	<u>55,869,288</u>	<u>64,130,180</u>
Total noncurrent assets	<u>8,260,892</u>	<u>56,575,472</u>	<u>64,836,364</u>
Total assets	<u>14,828,978</u>	<u>63,794,694</u>	<u>78,623,672</u>
LIABILITIES			
Current liabilities:			
Payables	231,212	309,009	540,221
Deferred revenue	35,000	-	35,000
Bonds and contracts payable	<u>-</u>	<u>104,617</u>	<u>104,617</u>
Total current liabilities	266,212	413,626	679,838
Noncurrent liabilities:			
Bonds and contracts payable	<u>-</u>	<u>915,212</u>	<u>915,212</u>
Total liabilities	<u>266,212</u>	<u>1,328,838</u>	<u>1,595,050</u>
NET ASSETS			
Invested in capital assets, net of related debt	8,260,892	54,849,459	63,110,351
Restricted for:			
Public safety	1,184,686	446,032	1,630,718
Public works	258,212	-	258,212
Capital outlay	686,263	-	686,263
Debt service	-	173,738	173,738
Unrestricted	<u>4,172,713</u>	<u>6,996,627</u>	<u>11,169,340</u>
Total net assets	<u>\$ 14,562,766</u>	<u>\$ 62,465,856</u>	<u>\$ 77,028,622</u>

See notes to the financial statements

Township of Byron
STATEMENT OF ACTIVITIES
Year ended March 31, 2005

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>		
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>
Governmental activities:				
Legislative	\$ 18,624	\$ -	\$ -	\$ -
General government	1,168,264	63,295	-	-
Public safety	985,508	-	99,886	141,412
Public works	251,648	131,508	66,084	-
Community and economic development	66,370	36,510	-	-
Culture and recreation	409,145	100,150	-	29,947
Total governmental activities	<u>2,899,559</u>	<u>331,463</u>	<u>165,970</u>	<u>171,359</u>
Business-type activities:				
Sewer	2,113,351	1,287,353	-	2,475,784
Water	1,746,250	1,306,074	-	2,150,085
Building inspections	252,958	348,517	-	-
Total business-type activities	<u>4,112,559</u>	<u>2,941,944</u>	<u>-</u>	<u>4,625,869</u>
Totals	<u>\$ 7,012,118</u>	<u>\$ 3,273,407</u>	<u>\$ 165,970</u>	<u>\$ 4,797,228</u>

General revenues:
Property taxes
State shared revenue
Cable franchise fees
Unrestricted interest income
Other

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenues and changes in net assets

<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>
\$ (18,624)		\$ (18,624)
(1,104,969)		(1,104,969)
(744,210)		(744,210)
(54,056)		(54,056)
(29,860)		(29,860)
<u>(279,048)</u>		<u>(279,048)</u>
 <u>(2,230,767)</u>		 <u>(2,230,767)</u>
	\$ 1,649,786	1,649,786
	1,709,909	1,709,909
	<u>95,559</u>	<u>95,559</u>
	 <u>3,455,254</u>	 <u>3,455,254</u>
<u>(2,230,767)</u>	<u>3,455,254</u>	<u>1,224,487</u>
 1,436,147	-	1,436,147
1,240,429	-	1,240,429
122,638	-	122,638
110,612	101,477	212,089
<u>10,762</u>	<u>-</u>	<u>10,762</u>
<u>2,920,588</u>	<u>101,477</u>	<u>3,022,065</u>
 689,821	3,556,731	4,246,552
<u>13,872,945</u>	<u>58,909,125</u>	<u>72,782,070</u>
<u>\$ 14,562,766</u>	<u>\$ 62,465,856</u>	<u>\$ 77,028,622</u>

See notes to the financial statements

Township of Byron
BALANCE SHEET - governmental funds
March 31, 2005

	<u>Major funds</u>			<u>Total</u>
	<u>General</u>	<u>Improvement Revolving</u>	<u>Nonmajor funds</u>	<u>governmental funds</u>
ASSETS				
Cash	\$ 1,041,964	\$ -	\$ 1,614,129	\$ 2,656,093
Investments	1,338,704	1,482,111	761,514	3,582,329
Receivables, net	233,974	-	95,690	329,664
Due from other funds	1,848	-	18,508	20,356
Total assets	<u>\$ 2,616,490</u>	<u>\$ 1,482,111</u>	<u>\$ 2,489,841</u>	<u>\$ 6,588,442</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables	\$ 112,031	\$ -	\$ 119,181	\$ 231,212
Due to other funds	18,508	-	1,848	20,356
Deferred revenue	35,000	-	-	35,000
Total liabilities	<u>165,539</u>	<u>-</u>	<u>121,029</u>	<u>286,568</u>
Fund balances:				
Reserved for street lighting	258,212	-	-	258,212
Unreserved, undesignated	<u>2,192,739</u>	<u>1,482,111</u>	<u>2,368,812</u>	<u>6,043,662</u>
Total fund balances	<u>2,450,951</u>	<u>1,482,111</u>	<u>2,368,812</u>	<u>6,301,874</u>
Total liabilities and fund balances	<u>\$ 2,616,490</u>	<u>\$ 1,482,111</u>	<u>\$ 2,489,841</u>	

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds.

8,260,892

Net assets of *governmental activities* (page 5)

\$ 14,562,766

Township of Byron

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - governmental funds**

Year ended March 31, 2005

	Major funds			Total
	General	Improvement Revolving	Nonmajor funds	governmental funds
REVENUES				
Property taxes	\$ 520,364	\$ -	\$ 915,783	\$ 1,436,147
Licenses and permits	122,638	-	-	122,638
Federal grant	-	-	107,247	107,247
State grants	1,276,460	-	3,249	1,279,709
Intergovernmental	60,000	-	103,829	163,829
Charges for services	183,665	-	-	183,665
Fines and forfeitures	15,523	-	-	15,523
Interest and rentals	73,722	12,456	27,639	113,817
Other:				
Special assessment - street lighting	131,508	-	-	131,508
Miscellaneous	23,514	-	11,783	35,297
Total revenues	<u>2,407,394</u>	<u>12,456</u>	<u>1,169,530</u>	<u>3,589,380</u>
EXPENDITURES				
Legislative	18,624	-	-	18,624
General government	1,042,764	-	-	1,042,764
Public safety	-	-	810,619	810,619
Public works	251,648	-	-	251,648
Community and economic development	66,370	-	-	66,370
Culture and recreation	275,258	-	-	275,258
Capital outlay	532,577	-	175,334	707,911
Total expenditures	<u>2,187,241</u>	<u>-</u>	<u>985,953</u>	<u>3,173,194</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>220,153</u>	<u>12,456</u>	<u>183,577</u>	<u>416,186</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	697,779	60,000	757,779
Transfers out	(757,779)	-	-	(757,779)
Total other financing sources (uses)	<u>(757,779)</u>	<u>697,779</u>	<u>60,000</u>	<u>-</u>
Net change in fund balances	(537,626)	710,235	243,577	416,186
FUND BALANCES - BEGINNING	<u>2,988,577</u>	<u>771,876</u>	<u>2,125,235</u>	<u>5,885,688</u>
FUND BALANCES - ENDING	<u>\$ 2,450,951</u>	<u>\$ 1,482,111</u>	<u>\$ 2,368,812</u>	<u>\$ 6,301,874</u>

See notes to the financial statements

Township of Byron

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds (Continued)**

Year ended March 31, 2005

Reconciliation of the statement of revenues, expenditures, and changes in fund balances to the statement of activities.

Net change in fund balances - total governmental funds (page 8) \$ 416,186

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Add - capital outlay	576,062
Deduct - depreciation expense	<u>(302,427)</u>

Change in net assets of *governmental activities* (page 6) \$ 689,821

Township of Byron
STATEMENT OF NET ASSETS - proprietary funds
March 31, 2005

	<u>Sewer</u>	<u>Water</u>	<u>Building Inspections</u>	<u>Totals</u>
ASSETS				
Current assets:				
Cash	\$ 771,172	\$ 1,105,278	\$ 446,032	\$ 2,322,482
Investments	2,282,177	2,011,701	-	4,293,878
Receivables, net	<u>316,356</u>	<u>286,506</u>	<u>-</u>	<u>602,862</u>
Total current assets	<u>3,369,705</u>	<u>3,403,485</u>	<u>446,032</u>	<u>7,219,222</u>
Noncurrent assets:				
Receivables, net	325,741	380,443	-	706,184
Capital assets, net of accumulated depreciation	<u>33,899,860</u>	<u>21,969,428</u>	<u>-</u>	<u>55,869,288</u>
Total noncurrent assets	<u>34,225,601</u>	<u>22,349,871</u>	<u>-</u>	<u>56,575,472</u>
Total assets	<u>37,595,306</u>	<u>25,753,356</u>	<u>446,032</u>	<u>63,794,694</u>
LIABILITIES				
Current liabilities:				
Payables	145,842	163,167	-	309,009
Contracts payable	29,617	-	-	29,617
Bonds payable	<u>-</u>	<u>75,000</u>	<u>-</u>	<u>75,000</u>
Total current liabilities	<u>175,459</u>	<u>238,167</u>	<u>-</u>	<u>413,626</u>
Noncurrent liabilities:				
Contracts payable	190,212	-	-	190,212
Bonds payable	<u>-</u>	<u>725,000</u>	<u>-</u>	<u>725,000</u>
Total noncurrent liabilities	<u>190,212</u>	<u>725,000</u>	<u>-</u>	<u>915,212</u>
Total liabilities	<u>365,671</u>	<u>963,167</u>	<u>-</u>	<u>1,328,838</u>
NET ASSETS				
Invested in capital assets, net of related debt	33,680,031	21,169,428	-	54,849,459
Restricted for:				
Public safety	-	-	446,032	446,032
Debt service	-	173,738	-	173,738
Unrestricted	<u>3,549,604</u>	<u>3,447,023</u>	<u>-</u>	<u>6,996,627</u>
Total net assets	<u>\$ 37,229,635</u>	<u>\$ 24,790,189</u>	<u>\$ 446,032</u>	<u>\$ 62,465,856</u>

See notes to the financial statements

Township of Byron

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN

NET ASSETS - *proprietary funds*

Year ended March 31, 2005

	<u>Sewer</u>	<u>Water</u>	<u>Building Inspections</u>	<u>Totals</u>
OPERATING REVENUES				
Charges for services	\$ 1,179,953	\$ 1,258,357	\$ 348,517	\$ 2,786,827
Other	107,400	47,717	-	155,117
Total operating revenues	<u>1,287,353</u>	<u>1,306,074</u>	<u>348,517</u>	<u>2,941,944</u>
OPERATING EXPENSES				
Personnel costs	53,170	53,170	214,472	320,812
Sewage treatment charges	850,106	-	-	850,106
Water charges	-	459,694	-	459,694
System operation and maintenance	175,337	335,827	-	511,164
Professional services	133,268	122,936	10,640	266,844
Miscellaneous	52,931	10,720	27,846	91,497
Depreciation	814,927	503,005	-	1,317,932
Total operating expenses	<u>2,079,739</u>	<u>1,485,352</u>	<u>252,958</u>	<u>3,818,049</u>
Operating income (loss)	<u>(792,386)</u>	<u>(179,278)</u>	<u>95,559</u>	<u>(876,105)</u>
NONOPERATING REVENUES (EXPENSES)				
Capital contributions:				
Developers	1,890,000	1,490,000	-	3,380,000
Customers	145,428	155,296	-	300,724
Tax increment financing	-	180,529	-	180,529
Trunkage and availability fees	414,297	298,529	-	712,826
Interest revenue	52,232	49,245	-	101,477
Special assessment interest	26,059	25,731	-	51,790
Capital contributions - other units	(33,612)	(209,773)	-	(243,385)
Interest expense	-	(51,125)	-	(51,125)
Total nonoperating revenues	<u>2,494,404</u>	<u>1,938,432</u>	<u>-</u>	<u>4,432,836</u>
CHANGE IN NET ASSETS	<u>1,702,018</u>	<u>1,759,154</u>	<u>95,559</u>	<u>3,556,731</u>
NET ASSETS - BEGINNING	<u>35,527,617</u>	<u>23,031,035</u>	<u>350,473</u>	<u>58,909,125</u>
NET ASSETS - ENDING	<u>\$ 37,229,635</u>	<u>\$ 24,790,189</u>	<u>\$ 446,032</u>	<u>\$ 62,465,856</u>

See notes to the financial statements

Township of Byron
STATEMENT OF CASH FLOWS - proprietary funds
Year ended March 31, 2005

	<u>Sewer</u>	<u>Water</u>	<u>Building Inspections</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 1,267,841	\$ 1,475,836	\$ 348,517	\$ 3,092,194
Payments to vendors and suppliers	(1,263,580)	(912,016)	(38,486)	(2,214,082)
Payments to employees	(53,170)	(53,170)	(214,472)	(320,812)
Net cash provided by (used in) operating activities	<u>(48,909)</u>	<u>510,650</u>	<u>95,559</u>	<u>557,300</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Collections of assessments receivable	129,165	106,676	-	235,841
Special assessment interest	26,059	25,731	-	51,790
Trunkage and availability fees	414,297	298,529	-	712,826
Capital contributions	-	180,529	-	180,529
Capital contributions paid to other governments	(33,612)	(209,773)	-	(243,385)
Acquisition of capital assets	(468,883)	(578,030)	-	(1,046,913)
Principal payments on capital debt	(30,220)	(125,000)	-	(155,220)
Interest payments on capital debt	-	(53,125)	-	(53,125)
Net cash provided by (used in) capital and related financing activities	<u>36,806</u>	<u>(354,463)</u>	<u>-</u>	<u>(317,657)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Net change in investments	(44,155)	95,790	-	51,635
Interest received	<u>52,232</u>	<u>49,245</u>	<u>-</u>	<u>101,477</u>
Net cash provided by investing activities	<u>8,077</u>	<u>145,035</u>	<u>-</u>	<u>153,112</u>
NET INCREASE (DECREASE) IN CASH	<u>(4,026)</u>	<u>301,222</u>	<u>95,559</u>	<u>392,755</u>
CASH - BEGINNING	<u>775,198</u>	<u>804,056</u>	<u>350,473</u>	<u>1,929,727</u>
CASH - ENDING	<u>\$ 771,172</u>	<u>\$ 1,105,278</u>	<u>\$ 446,032</u>	<u>\$ 2,322,482</u>

See notes to the financial statements

Township of Byron

STATEMENT OF CASH FLOWS - *proprietary funds* (Continued)

Year ended March 31, 2005

	<u>Sewer</u>	<u>Water</u>	<u>Building Inspections</u>	<u>Totals</u>
Noncash capital and related financing activities:				
Acquisition of capital assets	\$ (2,358,883)	\$ (2,068,030)	\$ -	\$ (4,426,913)
Less capital assets contributed by developers	<u>1,890,000</u>	<u>1,490,000</u>	<u>-</u>	<u>3,380,000</u>
Net cash used	<u>\$ (468,883)</u>	<u>\$ (578,030)</u>	<u>\$ -</u>	<u>\$ (1,046,913)</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (792,386)	\$ (179,278)	\$ 95,559	\$ (876,105)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	814,927	503,005	-	1,317,932
(Increase) decrease in:				
Receivables, net	(19,512)	169,762	-	150,250
Increase (decrease) in:				
Payables	<u>(51,938)</u>	<u>17,161</u>	<u>-</u>	<u>(34,777)</u>
Net cash provided by (used in) operating activities	<u>\$ (48,909)</u>	<u>\$ 510,650</u>	<u>\$ 95,559</u>	<u>\$ 557,300</u>

See notes to the financial statements

Township of Byron

STATEMENT OF FIDUCIARY NET ASSETS - *agency funds*

March 31, 2005

ASSETS

Cash	\$ <u>114,867</u>
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LIABILITIES

Payables	\$ <u>114,867</u>
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See notes to the financial statements

Township of Byron
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Township of Byron, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

a) Reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Township and its component unit, an entity for which the Township is considered financially accountable.

Blended component unit:

The Township of Byron Local Development Finance Authority is governed by a separate board appointed by the Township Board. Although it is legally separate, the Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct water system facilities within the Township.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. The effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Township of Byron
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Governmental fund financial statements are reported using the current financial resources measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government.

The Township reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from state shared revenue and property taxes.

The Improvement Revolving Fund accounts for Township improvements financed through transfers from the General Fund.

The Township reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the Township's sewage collection systems.

The Water Fund accounts for the activities of the Township's water distribution system.

Private-sector standards of accounting issued prior to March 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector standards.

The Township reports two fiduciary funds, the Agency Fund and the Tax Collection Fund, which account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Township of Byron
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

ii) Receivables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

iii) Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the government-wide financial statements.

iv) Capital assets - Capital assets, which include property, equipment, and infrastructure assets (e.g., sewer and water systems and sidewalks), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning April 1, 2004.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	25 - 100 years
Equipment	5 - 10 years
Vehicles	10 - 20 years
Sewer and water systems	50 years

Township of Byron
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

v) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

vi) Property tax revenue recognition - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the Board is the function level.

Excess of expenditures over appropriations - During the year ended March 31, 2005, the Township incurred expenditures that were significantly in excess of the amount appropriated in the culture and recreation function in the General Fund. The excess expenditures, in the amount of \$23,258, were funded by available fund balance.

NOTE 3 - CASH AND INVESTMENTS:

The Township's cash and investments are as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Fiduciary</u>	<u>Totals</u>
Cash	\$ 2,656,093	\$ 2,322,482	\$ 114,867	\$ 5,093,442
Investments	<u>3,582,329</u>	<u>4,293,878</u>	<u>-</u>	<u>7,876,207</u>
	<u>\$ 6,238,422</u>	<u>\$ 6,616,360</u>	<u>\$ 114,867</u>	<u>\$ 12,969,649</u>

Deposits:

Deposits are carried at cost and are maintained at various financial institutions in the name of the Township. State statutes and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority. At March 31, 2005, the Township has deposits with a carrying amount of \$5,093,442 and a bank balance of \$5,124,513. Of the bank balance, \$200,000 is covered by federal depository insurance and \$4,924,513 is uninsured.

Township of Byron
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS (Continued):

Investments:

State statutes authorize the Township to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper, with three (3) highest rate classifications by at least two (2) rating services, maturing not later than 270 days; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; e) mutual funds; and f) investment pools organized under the local government investment pool act. Not more than 50% of any mutual fund may be invested in commercial paper. The Township's investments consist of holdings in the Kent County Investment Pool, which are nonrisk-categorized qualifying investments, and are carried at cost, which approximates fair market value.

NOTE 4 - RECEIVABLES:

Receivables as of year end for the government's individual major funds are as follows:

<i>Fund</i>	<i>Accounts</i>	<i>Property taxes</i>	<i>Inter- governmental</i>	<i>Special assessments</i>	<i>Totals</i>
Governmental activities:					
General Fund	\$ -	\$ 12,415	\$ 221,559	\$ -	\$ 233,974
Nonmajor governmental funds	-	19,404	76,286	-	95,690
Total governmental activities	<u>\$ -</u>	<u>\$ 31,819</u>	<u>\$ 297,845</u>	<u>\$ -</u>	<u>\$ 329,664</u>
Business-type activities:					
Sewer Fund	\$ 189,356	\$ -	\$ -	\$ 452,741	\$ 642,097
Water Fund	180,506	-	-	486,443	666,949
Total business-type activities	<u>\$ 369,862</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 939,184</u>	<u>\$ 1,309,046</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 706,184</u>	<u>\$ 706,184</u>

All receivables are considered fully collectible.

Township of Byron
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended March 31, 2005, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated - land	\$ 160,955	\$ 302,221	\$ -	\$ 463,176
Capital assets being depreciated:				
Land improvements	2,841,313	23,000	-	2,864,313
Buildings	4,527,677	12,000	-	4,539,677
Equipment and vehicles	2,387,481	238,841	-	2,626,322
Subtotal	9,756,471	273,841	-	10,030,312
Less accumulated depreciation:				
Land improvements	187,044	58,280	-	245,324
Buildings	787,900	91,313	-	879,213
Equipment and vehicles	955,225	152,834	-	1,108,059
Subtotal	1,930,169	302,427	-	2,232,596
Governmental activities capital assets, net	\$ 7,987,257	\$ 273,635	\$ -	\$ 8,260,892
Business-type activities:				
Capital assets being depreciated:				
Sewer system	\$ 40,011,548	\$ 2,358,883	\$ -	\$ 42,370,431
Water system	24,512,412	2,068,030	-	26,580,442
Subtotal	64,523,960	4,426,913	-	68,950,873
Less accumulated depreciation:				
Sewer system	7,655,644	814,927	-	8,470,571
Water system	4,108,009	503,005	-	4,611,014
Subtotal	11,763,653	1,317,932	-	13,081,585
Business-type activities capital assets, net	\$ 52,760,307	\$ 3,108,981	\$ -	\$ 55,869,288

Township of Byron
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

Depreciation expense was charged to functions of the Township as follows:

Governmental activities:	
General government	\$ 76,691
Public safety	155,602
Culture and recreation	<u>70,134</u>
Total governmental activities	<u>\$ 302,427</u>

NOTE 6 - NONCURRENT LIABILITIES:

At March 31, 2005, noncurrent liabilities are comprised of the following individual issues:

Business-type activities:

Bonds:

\$1,385,000 1992 Local Development Finance Authority tax increment bonds due in annual installments ranging from \$50,000 to \$200,000, plus interest at 5.5% to 6.0%; final payment due May 2011	\$ 800,000
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Contracts:

\$171,070 2003 Sewer contract payable to JCB Development due in annual installments of \$17,107; final payment due September 2011	119,749
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\$125,101 2003 Sewer contract payable to Byron Center Schools due in annual installments of \$12,510; final payment due September 2012	<u>100,080</u>
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Total business-type activities noncurrent obligations	<u>\$ 1,019,829</u>
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Noncurrent obligation activity for the year ended March 31, 2005, was as follows:

	<i>Beginning balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending balance</i>	<i>Amounts due within one year</i>
Business-type activities:					
1992 Sewer tax increment bonds	\$ 925,000	\$ -	\$ (125,000)	\$ 800,000	\$ 75,000
2003 Sewer contract payable	136,856	-	(17,107)	119,749	17,107
2003 Sewer contract payable	<u>113,193</u>	<u>-</u>	<u>(13,113)</u>	<u>100,080</u>	<u>12,510</u>
Total noncurrent obligations	<u>\$ 1,175,049</u>	<u>\$ -</u>	<u>\$ (155,220)</u>	<u>\$ 1,019,829</u>	<u>\$ 104,617</u>

Township of Byron
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - NONCURRENT LIABILITIES (Continued):

At March 31, 2005, debt service requirements were as follows:

<u>Year ended</u> <u>March 31:</u>	<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 104,617	\$ 54,388
2007	104,617	50,075
2008	129,617	44,950
2009	129,617	39,000
2010	229,617	30,000
2011 - 2015	<u>321,744</u>	<u>24,000</u>
Totals	<u>\$ 1,019,829</u>	<u>\$ 242,413</u>

NOTE 7 - PAYABLES:

Payables as of year end for the Township's individual major funds are as follows:

	<u>Accounts</u>	<u>Payroll</u>	<u>Inter- governmental</u>	<u>Interest</u>	<u>Totals</u>
Governmental activities:					
General	\$ 112,031	\$ -	\$ -	\$ -	\$ 112,031
Nonmajor governmental funds	<u>25,729</u>	<u>72,733</u>	<u>20,719</u>	<u>-</u>	<u>119,181</u>
	<u>\$ 137,760</u>	<u>\$ 72,733</u>	<u>\$ 20,719</u>	<u>\$ -</u>	<u>\$ 231,212</u>
Business-type activities:					
Sewer	\$ 94,342	\$ -	\$ 51,500	-	\$ 145,842
Water	<u>90,667</u>	<u>-</u>	<u>51,500</u>	<u>21,000</u>	<u>163,167</u>
Total business-type activities	<u>\$ 185,009</u>	<u>\$ -</u>	<u>\$ 103,000</u>	<u>21,000</u>	<u>\$ 309,009</u>

Township of Byron
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

At March 31, 2005, the composition of interfund balances is as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
General	\$ 1,848	Nonmajor governmental funds	\$ 1,848
Nonmajor governmental funds	<u>18,508</u>	General	<u>18,508</u>
Totals	<u>\$ 20,356</u>	Totals	<u>\$ 20,356</u>

The interfund transfers for the year ended March 31, 2005, is as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
Improvement Revolving	\$ 697,779		
Fire Operation and Maintenance	<u>60,000</u>		
	<u>\$ 757,779</u>	General	<u>\$ 757,779</u>

These transfers moved unrestricted revenues, collected in the General Fund, to finance future capital acquisitions and current fire protection costs in accordance with budgetary authorizations.

NOTE 9 - RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for each of these claims and is neither self insured nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 10 - DEFINED CONTRIBUTION PENSION PLAN:

The Township provides pension benefits for substantially all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate from the date of employment. The Township contributes 10.5% of each qualified employee's base salary to the plan. The Township's contributions are fully vested immediately. The Township is not a trustee of the plan, nor is the Township responsible for investment management of plan assets.

The Township made the required contributions of \$46,723 for the year ended March 31, 2005.

Township of Byron
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 11 - JOINT VENTURE:

Byron-Gaines Utility Authority:

The Township is a member of the Byron-Gaines Utility Authority, which is a joint venture of the Townships of Byron and Gaines. The administrative board of the Authority consists of members appointed by each participating unit. The Authority was formed to jointly provide water and sewer services within the combined service area, which encompasses the participating municipalities. During the year ended March 31, 2005, the Township contributed \$532,355 as its proportionate share of the Authority's capital costs and other administrative expenses.

NOTE 12 - CONTINGENCIES:

The Township is contingently liable for paybacks of availability and trunkage fees to various developers. In accordance with the development agreements, the Township must make paybacks when additional customers connect to the utility systems. At March 31, 2005, the Township is contingently liable for payments to developers in the amounts of \$220,754 and \$602,365 in the Sewer Fund and Water Fund, respectively. These agreements terminate on various dates between 2008 and 2012.

NOTE 13 - CHANGE IN ACCOUNTING PRINCIPLES:

Effective April 1, 2004, the Township implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, along with all related statements and interpretations. In connection with the implementation of this statement, the following adjustments to beginning net assets have been made to reflect the cumulative effect of this accounting change:

Net assets, as previously reported	
General and special revenue funds	\$ 5,885,688
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>7,987,257</u>
Net assets, as restated	<u>\$ 13,872,945</u>

REQUIRED SUPPLEMENTARY INFORMATION

Township of Byron

BUDGETARY COMPARISON SCHEDULE -General Fund

Year ended March 31, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 477,500	\$ 477,500	\$ 520,364	\$ 42,864
Licenses and permits	106,600	106,600	122,638	16,038
State grants	910,000	910,000	1,276,460	366,460
Intergovernmental	65,000	65,000	60,000	(5,000)
Charges for services	91,600	91,600	183,665	92,065
Fines and forfeitures	-	-	15,523	15,523
Interest and rentals	37,200	37,200	73,722	36,522
Other:				
Street lighting assessment	97,000	97,000	131,508	34,508
Miscellaneous	40,060	40,060	23,514	(16,546)
Total revenues	<u>1,824,960</u>	<u>1,824,960</u>	<u>2,407,394</u>	<u>582,434</u>
EXPENDITURES				
Legislative	19,650	19,650	18,624	1,026
General government	1,053,975	1,053,975	1,042,764	11,211
Public works	488,000	488,000	251,648	236,352
Community and economic development	84,200	84,200	66,370	17,830
Culture and recreation	252,000	252,000	275,258	(23,258)
Capital outlay	592,000	592,000	532,577	59,423
Total expenditures	<u>2,489,825</u>	<u>2,489,825</u>	<u>2,187,241</u>	<u>302,584</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(664,865)</u>	<u>(664,865)</u>	<u>220,153</u>	<u>885,018</u>
OTHER FINANCING USES				
Transfers out:				
Township Improvement Revolving Fund	-	(697,779)	(697,779)	-
Fire Department Operation and Maintenance Fund	<u>(60,000)</u>	<u>(60,000)</u>	<u>(60,000)</u>	<u>-</u>
Total other financing uses	<u>(60,000)</u>	<u>(757,779)</u>	<u>(757,779)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(724,865)</u>	<u>(1,422,644)</u>	<u>(537,626)</u>	<u>885,018</u>
FUND BALANCES - BEGINNING	<u>2,988,577</u>	<u>2,988,577</u>	<u>2,988,577</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 2,263,712</u>	<u>\$ 1,565,933</u>	<u>\$ 2,450,951</u>	<u>\$ 885,018</u>

Township of Byron**BUDGETARY COMPARISON SCHEDULE - Improvement Revolving Fund**

Year ended March 31, 2005

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Interest	\$ -	\$ 2,500	\$ 12,456	\$ 9,956
OTHER FINANCING SOURCES				
Transfer in - General Fund	<u>-</u>	<u>697,779</u>	<u>697,779</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	-	700,279	710,235	9,956
FUND BALANCES - BEGINNING	<u>771,876</u>	<u>771,876</u>	<u>771,876</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 771,876</u>	<u>\$ 1,472,155</u>	<u>\$ 1,482,111</u>	<u>\$ 9,956</u>

SUPPLEMENTARY INFORMATION

Township of Byron
COMBINING BALANCE SHEET - nonmajor governmental funds
 March 31, 2005

	<u>Special revenue funds</u>				<u>Total other govern- mental funds</u>
	<u>Fire Department Operation and Maintenance</u>	<u>Fire Department Capital Outlay</u>	<u>Law Enforcement</u>	<u>Public Improvement</u>	
ASSETS					
Cash	\$ 444,183	\$ 651,481	\$ 518,465	\$ -	\$ 1,614,129
Investments	-	-	263,651	497,863	761,514
Receivables, net	43,575	29,940	22,175	-	95,690
Due from other funds	13,666	4,842	-	-	18,508
Total assets	<u>\$ 501,424</u>	<u>\$ 686,263</u>	<u>\$ 804,291</u>	<u>\$ 497,863</u>	<u>\$ 2,489,841</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables	\$ 98,462	\$ -	\$ 20,719	\$ -	\$ 119,181
Due to other funds	-	-	1,848	-	1,848
Total liabilities	98,462	-	22,567	-	121,029
Fund balances:					
Unreserved, undesignated	<u>402,962</u>	<u>686,263</u>	<u>781,724</u>	<u>497,863</u>	<u>2,368,812</u>
Total liabilities and fund balances	<u>\$ 501,424</u>	<u>\$ 686,263</u>	<u>\$ 804,291</u>	<u>\$ 497,863</u>	<u>\$ 2,489,841</u>

Township of Byron

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - nonmajor governmental funds**

Year ended March 31, 2005

	Special revenue funds				Total other govern- mental funds
	Fire Department Operation and Maintenance	Fire Department Capital Outlay	Law Enforcement	Public Improvement	
REVENUES					
Property taxes	\$ 397,367	\$ 154,532	\$ 363,884	\$ -	\$ 915,783
Federal grant	-	107,247	-	-	107,247
State grant	-	-	3,249	-	3,249
Intergovernmental	26,137	26,665	51,027	-	103,829
Interest	3,064	5,786	9,156	9,633	27,639
Other	57	11,450	276	-	11,783
Total revenues	426,625	305,680	427,592	9,633	1,169,530
EXPENDITURES					
Public safety:					
Fire protection	451,310	-	-	-	451,310
Police protection	-	-	359,309	-	359,309
Capital outlay	-	175,334	-	-	175,334
Total expenditures	451,310	175,334	359,309	-	985,953
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(24,685)	130,346	68,283	9,633	183,577
OTHER FINANCING SOURCES					
Transfer in	60,000	-	-	-	60,000
NET CHANGE IN FUND BALANCES	35,315	130,346	68,283	9,633	243,577
FUND BALANCES - BEGINNING	367,647	555,917	713,441	488,230	2,125,235
FUND BALANCES - ENDING	\$ 402,962	\$ 686,263	\$ 781,724	\$ 497,863	\$ 2,368,812

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL RELATED MATTERS NOTED IN A FINANCIAL STATEMENT AUDIT

Board of Trustees
Township of Byron, Michigan

In planning and performing our audit of the basic financial statements of the Township of Byron, Michigan for the year ended March 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Township's ability to initiate, record, process, and report financial data consistent with the assertions of management in the basic financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions.

- Certain expenditure reimbursement checks lacked appropriate authorization and documentation.
- Payroll disbursements, to employees within the Byron Fire Department, are not adequately monitored.
- Utility billing adjustments are currently approved and recorded by the same person.

None of the reportable conditions described above were considered material weaknesses. We also noted other matters involving the internal controls that we have reported to management of the Township in a separate letter dated September 3, 2005.

This report is intended solely for the information and use of the Board of Trustees and the Michigan Department of Treasury and is not intended to be, and should not be, used by anyone other than these specified parties.

Siegfried Crandall P.C.

August 25, 2005

September 3, 2005

**Members of the Board
Township of Byron**

In planning and performing our audit of the financial statements of the Township of Byron for the year ended March 31, 2005, we considered the Township's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated August 25, 2005, on the financial statements of the Township of Byron.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with Township management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

Siegfried Crandall P.C.

COMMENTS AND RECOMMENDATIONS

Postemployment benefits

The Governmental Accounting Standards Board has issued a new accounting pronouncement related to postemployment benefits other than pensions. The pronouncement requires local units of government to record and report the cost of providing these benefits to its retirees. The intent of the new rules is to recognize the cost of providing the benefits over the working life of the employee rather than when cash is paid for the benefits. The Township will be required to measure its obligation to provide postemployment benefits and the related annual costs beginning with the fiscal year ending March 31, 2009.

We recommend that the Township consult an actuary experienced in measuring these obligations, when necessary.

While the Township is not required to fund these obligations before they come due, we commend the Board for its intent to pre-fund a portion of this liability.

Disbursement authorizations

Certain expenditure reimbursement checks lacked appropriate authorization.

We recommend that a minimum of two elected officials review all disbursements for adequate support and proper authorization before the checks are presented to the entire Board for approval.

Excessive expenditure reimbursements

Township disbursements included an excessive number of reimbursements to employees. The reimbursements included amounts paid for sales tax and charges to employees' personal credit cards.

We recommend that employee reimbursements be kept to a minimum. The Township incurs unnecessary costs when it pays for sales tax from which it is exempt. More importantly, expenditure reimbursements for which an employee may be receiving a personal benefit could be construed as private inurement. Private inurement is the use of a tax-exempt organization for the private gain of an individual and is prohibited by the Internal Revenue Code.

Monitoring of compensated absences or "paid time off"

The Township does not currently track employees' paid time off.

We recommend that the Township monitor the paid time off earned and used by each employee. This will ensure that employees will receive the benefits to which they are entitled and prevent employees from using more time than they have earned.

COMMENTS AND RECOMMENDATIONS (Continued)

Fire Department payroll monitoring

The internal controls related to payroll disbursements to employees within the Byron Fire Department could be enhanced through the following procedures:

- Documentation of Board approval of pay rates and salaries, and changes thereto
- Approval, by the Fire Chief, of hours to be paid
- Periodic reconciliation, by an employee independent of the Fire Department, of hours per incident reports to hours to be paid
- Preparation of payroll on a more frequent basis - consider monthly or quarterly instead of twice a year

Utility billing adjustments

Our consideration of the internal controls related to utility billings revealed an opportunity to strengthen the system of controls through the segregation of duties. Utility billing adjustments are currently approved and recorded by the same person. Errors and fraud have occurred in other communities due to the lack of a segregation of duties in this department.

We recommend the review and approval of all utility billing adjustments by a Township employee who has an understanding of the utility billing system but no ability to record billing transactions. The Water/Sewer Department could prepare several reports, on a monthly basis, to support billing adjustments. The reports would include: a "billing summary report," along with a "billing register correction summary report"; an "account history adjustment report"; and a copy of the general ledger history supporting the posting of the transaction.

Policies and procedures

Many of the Township's policies and procedures, especially those related to the accounting function, have not been formally documented.

We recommend that the Township develop a written accounting policies and procedures manual. Committing the Township's policies and procedures to writing would provide several benefits, including:

- clarification of responsibilities and segregation of duties
- communication of appropriate systems of internal controls
- improve continuity at the time of personnel changes